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May 10, 1999

Mr. Doug Galbi
Senior Economist
Federal Communications Commission
Common Carrier Bureau
The Portals
445 Twelfth Street, SW
Washington, DC 20554

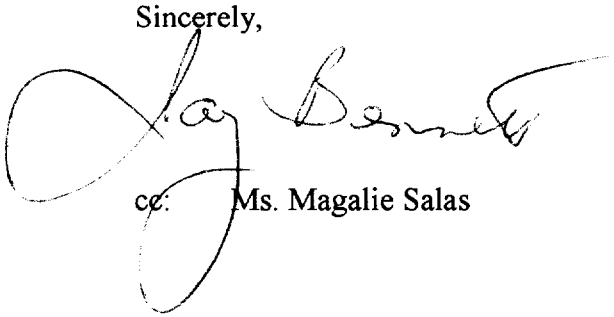
RE: In the Matter of Petition of the SBC Companies for Forbearance From Regulation as a Dominant Carrier for High Capacity Dedicated Transport Services in Specified MSAs, CC Docket No. 98-227.

Dear Mr. Galbi:

In response to questions posed by some of the parties to the above proceeding regarding Quality Strategies' analysis of the high capacity market, SBC Communications, Inc. submits the attached response from Quality Strategies. A copy is being sent to the Secretary for inclusion into the record in this proceeding.

Please contact me if you have any questions regarding the attached.

Sincerely,



cc: Ms. Magalie Salas

QUALITY STRATEGIES®
COMMUNICATIONS RESEARCH AND CONSULTING

May 4, 1999

QUALITY STRATEGIES' Ex Parte Responsive Statement

QUALITY STRATEGIES is a research and consulting firm working primarily in the telecommunications industry. During the past decade, QUALITY STRATEGIES has provided competitive market information, including market share results and competitive market data to every RBOC and large LEC.

QUALITY STRATEGIES has conducted hundreds of similar High Capacity market share studies on a per metro basis in all RBOC regions. In addition, QUALITY STRATEGIES has conducted thousands of research projects measuring market share (Local, HICAP, Data etc.), customer perception, and competitive landscape information extensively throughout the nation in all major metros over the past decade. This experience combined with our rigorous information gathering processes, have made us uniquely skilled to research and report market share measurement for the high capacity services market and other telecommunications services at the product and metro specific levels.

We have prepared this material to provide additional information regarding our preparation and analysis of the High Capacity market. QUALITY STRATEGIES reaffirms that the market share estimates are accurate and representative of the market conditions at the time of the study.

1) Circuit Equivalents

Individual DS1 and DS3 shares are collected and provided on a 1 for 1 basis (see the Quality Strategies' Responsive Statement attached to the February 11, 1999 SBC Companies' Reply Comments in CC Docket No. 98-227.). However, in order to measure overall share an equivalency must be used in order to integrate different types of circuits with different capacities.

Overall High Capacity Market Share is provided on a DS1 equivalent circuit basis. All circuits are expressed in terms of 1.544 Mbps. QUALITY STRATEGIES uses the following calculations to determine DS1 equivalent share.

- DS3's Circuits: Number of DS3 circuits x 28 = Number of DS1 equivalents
- Sonet OC-n Circuits: Number of OC-n circuits x "n" x 28 = Number of DS1 equivalents (i.e., OC-12 equals 336 DS1s, OC-48 equals 1344 DS1s).

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The analysis is based on end to end circuits and not individual end points (e.g. channel terminations). QUALITY STRATEGIES uses circuits because a common unit of measure must be used to provide market share. While SBC tracks the number of channel terminations it provides, competitors and end users report circuits, not channel terminations. By converting SBC's channel terminations to circuits we are able to provide a consistent unit of measurement, which is required to develop accurate market share measurements. Since the same equivalency factors are used for all providers, no single provider's share is over or understated.

2) Revenue vs. Circuits

AT&T has asserted that DS-1 equivalents are an inappropriate measure for market share. QUALITY STRATEGIES states that this assertion is incorrect for the following reasons. QUALITY STRATEGIES reaffirms that in order to meaningfully measure and track market share, an equivalent and consistent measurement must be used. Market share measurement by the circuit standard is the most accurate method for several reasons. First, in evaluating market share over time, consistency in share measurement necessitates the use of the least fluctuant measure. A circuit is a constant value of measure regardless of which company provides the service. However, the revenue produced by that circuit varies by competitor. All providers market and charge differently for their circuits, and over time these prices change. Providing a share measure over time using revenue introduces additional inconsistencies (fluctuations in price/revenues) into the market share. Thus market share of the underlying facilities, and answering the question of who is controlling the end user relationship, must always be checked against the current pricing structure of the individual market. Measuring market share in circuits directly answers the question of who is controlling the end user relationship, and that measure is not dependent on a fluctuating price structure. Therefore, circuits are the most consistent and equal measure for the high capacity market.

Second, determining revenue measurement that is consistently attributable to a high capacity circuit and obtaining this accurately from end users is problematic. Obtaining revenue, which may vary widely and be combined with other products, creates survey response bias. While this bias can be minimized, it is impossible to completely overcome, thereby reducing the accuracy of market share results. Moreover, the end user may not be able to supply an accurate and consistent response. The differences in how carriers sell, price and bill these services often prevents a consistent answer and thus adds bias when a survey attempts to build a reliable revenue measurement, necessary for revenue market share calculation. An example of this type of survey response bias would be an end-user overstating the monthly amount paid for a DS-1 circuit. The customer might accidentally include installation charges, or equipment charges in the answer.

An effective method for reducing this type of bias in High Capacity research is to ask each respondent for the number of circuits. Generally the responses to this type of question are much more accurate. If a customer has 8 DS-1 circuits, and that respondent is the telecommunications decision-maker (the QUALITY STRATEGIES standard for interviews), then that respondent is very accurate in reporting 8 DS-1s. This type of question reduces response bias because the options for answers are much less ambiguous. Finally, it is not unusual for customers when directly asked, "what do you pay for these circuits?" to be unable or unwilling to respond accurately.

Therefore an accurate base of data on revenue is much harder to gather.

Third, mergers of competitors and the absorption of acquired companies' revenues prevent meaningful market share measurements based upon revenues. The recent acquisitions of MCI, MFS, Brooks Fiber and TCG are prime examples. Each affiliate is now working to vertically supply is parent with transport circuits, replacing invoices (and thus market revenues) with affiliate cost transactions. While the number of circuits in the market do not decrease, this would inaccurately increase a revenue-based market share view for the remaining market participants.

Fourth, and most importantly market share measurement should be an unbiased view, which represents the market in a consistent manner over time. When the same measurement is used for all providers, the market is displayed in an equal manner and the market share is valid as a stand-alone number. While it is QUALITY STRATEGIES experience that a comparison of revenue and circuit market shares produce results of no significant difference, circuits are clearly the best measurement, as they provide consistency of counts, and measurement over time that applies equally to all participants. Whereas a revenue market share study would be less representative of the market because of survey bias and inconsistent revenue counting, further skewed by the mergers of market participants.

This circuit-based methodology is clearly logical. However, without providing any documentation, or studies of its own, AT&T asserts that the use of circuits "vastly overstates SBC's share loss because the loss of a single DS3 is viewed as the same as the loss of 28 DS1's, while the price of a single DS3 may be only two to three times the price of a DS1, so the revenue loss of a DS3 is vastly overestimated by the use of the equivalent DS1 measurement." QUALITY STRATEGIES has not overstated revenue loss in its research. In fact, QUALITY STRATEGIES did not report revenue loss in its study. The data provided showed market share based on circuits. It should also be noted that QUALITY STRATEGIES' market share data, based on circuit equivalents, also reflects the true capacity (call handling/volume handling) of each competitor in the market place. In addition, in attempting to determine if customers have an option for competitive communications services, measuring market share in the actual service being provided would seem to be most appropriate.